

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PA-04 USIA-15

PRS-01 NSC-07 SS-20 STR-08 CEA-02 DRC-01 /160 W

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R 071450Z JUN 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 5241

INFO EC BRUSSELS 5200

OECD PARIS 9404

UNCLAAS ROME 7887

E.O. 11652 N/A

TAGS: EFIN, IT

SUBJ: "PRIME RATE" RISES TO 15.5 PERCENT IN ITALY

REF: ROME 1758 DATED FEBRUARY 6, 1974

1. /SUMMARY/. INFLATION AND TIGHT CREDIT POLICY HAVE CAUSED FURTHER RISE IN COST OF MONEY. "PRIME RATE" MAJOR COMMERCIAL BANKS CHARGE CLIENTS HAS INCREASED TO 15.5 PERCENT, BRINGING EFFECTIVE COST OF MONEY TO 17 PERCENT. /END SUMMARY/.

2. ACCORDING TO /IL SOLE 24 ORE/, MILAN FINANCIAL DAILY, MAJOR ITALIAN BANKS HAVE RAISED "PRIME RATE" (OVERDRAFT RATE) CHARGED THEIR CLIENTS TO 15.5 PERCENT, THIS BRINGING EFFECTIVE COST OF MONEY FOR AVERAGE BORROWER TO 17 PERCENT. /IL FIORINO/, HOWEVER, REPORTS SOMEWHAT HIGHER RATES: 16.75 PERCENT PRIME RATE AND 18-19 PERCENT EFFECTIVE COST OF MONEY.) AT SAME TIME, INTEREST PAID ON DEPOSITS HAS INCREASED. DEPOSITS OF ONE BILLION LIRE OR MORE EARN 11-11.5 PERCENT, WHILE DEPOSITS OF 10-20 MILLION LIRE EARN ABOUT 10 PERCENT.

3. THESE FURTHER INCREASES REFLECT IMPACT OF INFLATION AND UNCLASSIFIED

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RESTRICTIVE CREDIT POLICIES ON DOMESTIC MONEY MARKET, ADOPTED

BY BANK OF ITALY TO REDUCE INFLATION. IN SPITE OF ALREADY HIGH
INTEREST RATES, DEMAND FOR CREDIT HAS CONTINUED TO INCREASE IN
A MARKET WHERE LIQUIDITY IS BECOMING SCARCER. THEREFORE, BANKS
ARE CHARGING THEIR CLIENTS MORE FOR FUNDS BORROWED WHILE AT
SAME TIME PAYING MORE FOR DEPOSITS.BEAUDRY

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